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CENTRAL INTELLIGENCE AGENCY  
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PROBABLE CONSEQUENCES OF TERMINATING AMERICAN AID TO INDIA

India would face important political and economic readjustments in both the internal and international spheres if the United States terminated all economic and financial aid as a result of the shipment on 17 July of 2,248 pounds of thorium nitrate from Bombay to Communist China.

Termination would tend materially to weaken the Congress Party's power and would lead to economic deterioration. It would intensify India's neutral policy, but the friendly neutrality now exhibited toward the United States certainly would change for the worse. This probably would result in a superficial political and economic rapprochement with the Orbit, partly motivated by pique but partly also by necessity, although it would not necessarily draw India closer to Communism.

India, deprived of American assistance, would be unlikely to seek restoration of that aid. Under present circumstances, restoration would be contingent upon receipt of a request from India, accompanied by assurances that adequate measures had been taken to comply in the future with the terms of the Battle Act.

Indian prime minister Nehru would not make such a request in his present frame of mind, having stated flatly to the American ambassador that he would not accept any dictation in matters of trade. Even after more mature consideration of the problem, Nehru would probably feel that for reasons of personal and national pride he could not retract his statement.

Publication in India of the news that American aid had been withdrawn would have an immediate, widespread effect. The shock would be felt throughout the country by people in the villages, as soon as community development schemes and technical assistance projects were abandoned. Public opinion might at first blame the inefficiency of India's Congress Party government for the error which led to the American action. Subsequently, however, the inevitable growth of a press-inspired (and probably Communist-supported) propaganda campaign charging the United States with "dollar imperialism" and "power politics" would be likely to turn popular resentment against the United States.

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The conservative and industrial group within the Congress Party, being keenly aware of the vital nature of American aid, would almost certainly try to impress Nehru with the folly of "going it alone." A failure to convince the prime minister, which is probable, would lead to serious dissension within the Congress Party, growing opposition to Nehru's policies, and a consequent weakening of both his and the party's power.

Other political parties are more likely to support Nehru's stand. The Socialists would sympathize with a decision to pursue an independent path. Strongly nationalistic Hindu communal groups, as well as businessmen who fear "economic imperialism" and foreign competition, would uphold Nehru's position. The Communists, seizing a chance to create confusion, would applaud vociferously, praising Nehru's show of independence, his cutting of American apron-strings, and his clearcut demonstration of Indian sovereignty.

Termination of aid would lead India to take retaliatory measures. These would probably assume the form of curtailment of USIS activities, increased pressure for the Indianization of personnel in American businesses operating in India, the creation of additional difficulties for these businesses, and further discrimination against American missionaries, whose work is already actively discouraged. India may also become less willing to make concessions to the American point of view in various treaties now under negotiation.

The economic effect on India of the withdrawal of American aid would be widespread, and in the long run sorely felt. Current American assistance takes the form of materiel or technical advice for agricultural improvement, irrigation, reforestation, and locust control projects. It helps in community development schemes. It assists in the expansion of industry, in the fisheries, in mineral exploitation and housing. Education, health, and sanitation programs have also benefited from American funds. Export-Import Bank loans and emergency food aid have also materially helped India in critical situations.

American activities have provided support for the economy which India itself was unable to supply, and they have been instrumental in maintaining that economy on a fairly even keel. India has little independent capacity for expanding its food and industrial production rapidly enough to cope with its growing population and to prevent increasing unemployment. Colombo plan and other Commonwealth aid is incapable of making up the loss. The net result of US aid termination, therefore, would be slow, steady economic deterioration, gradually accelerated by the imposition of more and more stringent trade controls necessary to avoid insolvency.

India receives no American military equipment except on a reimbursable basis; its military capabilities accordingly would be unaffected by withdrawal of aid.

In the international political sphere, repercussions would be less tangible than within India itself, but they would be no less important. Primarily, India's neutral attitude would become firmly crystallized, taking on an unfriendly attitude toward American interests.

India's economic dependence on the Commonwealth would be increased, and its ties therewith might be strengthened--except in the case of Pakistan. Closer relationships with the Arab-Asian bloc would probably follow, and Indian support would be more outspoken for such causes as Tunisia, Morocco, the eviction of Chinese Nationalists from Burma, and the admission of Communist China to the United Nations.

Although India, in such capacities as chairman of the neutral commission in Korea, might thus find itself opposed to the United States on numerous occasions, it would not necessarily be drawn into the Orbit. India would continue to be suspicious of Soviet and Chinese objectives and would be unlikely to develop close political relationships with those countries. A particular deterrent would be Indian concern over Chinese activities and potentialities in Tibet and Nepal. The Indian government would deal harshly, as it has in the past, with any indigenous Communist effort to create major disturbances.

On the other hand, India would have to alter certain trade patterns as a result of the withdrawal of American aid, and would have to undergo a period of extreme economic austerity. Attractive offers from the Soviet Orbit and China of food and other commodities would probably find willing takers in India, to the extent that the Communist countries could deliver.

To date, however, neither the USSR, the European Satellites, nor China has demonstrated a readiness to supply large quantities of any commodity other than food, despite the launching of an intensive propaganda campaign early in 1952 describing Soviet and Satellite interest in expanding trade in underdeveloped areas. In addition, it would be uncharacteristic of the Orbit to bolster a government and economy from whose gradual weakening the Orbit might be expected to benefit materially. On balance, therefore, it appears that India would not easily fall under Communist sway despite its deteriorating economy.

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